Report on the acquisition of IC4-trains

I. Results of investigation

Introduction

1. On 18 January 2006 the Public Accounts Committee requested that the National Audit Office launch an investigation of DSB's acquisition of IC4-trains. At that time, the delivery of IC4-trains had been delayed by 3 years due to several postponements.

The Public Accounts Committtee requested that the investigation should include the background to DSB's choice of AnsaldoBreda as a supplier of trains, DSB's project management, the Transport and Energy Minister's supervision of DSB's management of the project, as well as the Minister for Transport and Energy's briefing of Parliament.

2. In January 1999, DSB was transformed from a state enterprise into a independant public company (SOV). The purpose of the transformation was to promote a business- and customer-focused company, as well as facilitating competition in the rail network. In the transformation, neccessitated by DSB Act, there is a clear separation between DSB as a supplier of rail transport and the Minister for Transport and Energy as responsible for the purchase of rail transport.

3. With regards to the restructuring, a 10 year budget was drawn up for DSB. In the budget 10 billion DKK was allocated to investment in new trains. 3.9 billion DKK thereof was to be used to replace the old red regional trains, as DSB estimated that from 2005 it would be impossible to extend their lifespan any further.

In November 1999, a five-year transport policy framework agreement was drawn up for the railway network region. The agreement stipulated, among other things, that DSB's planned investments in the replacement of the red regional trains be brought forward and that a further 1.1 billion DKK be allocated, so that DSB could purchase new trains (recent IC4-trains) for a total of 5 billion DKK with the aim of improving both long-distance rail services between Copenhagen and Århus/Aalborg and regional rail services. The original plan to replace the red regional trains with new

ones was changed to a plan to replace the red trains with the current IC3-trains, so that the IC3-trains could be replaced by the IC4-trains in long distance rail traffic. Subsequently, in December 2000, following an EU tender, DSB entered into a contract with the Italian company AnsaldoBreda regarding delivery of IC4-trains: the first train was to be delivered in April 2003 and put into operation in January 2004, and all the trains had to be delivered and put into service by January 2006.

4. The transport agreement from 1999 thus established that DSB would, on the basis of its investment in IC4, improve rail services on both the long distance route between Copenhagen and Århus/ Aalborg, and on the regional routes. The Minister for Transport and Energy signed transport contracts with DSB to implement the transport agreement. In the period of 2002-2006 a number of delays occured in the delivery of IC4-trains. The full implementation that was to have been completed in January 2006 was therefore postponed for three years, to January 2009.

5. Based on of the government auditors request, the purpose of the investigation is to answer the following questions:

- Did DSB have substantiated grounds for choosing AnsaldoBreda as the supplier of trains?
- Has DSB, during the management of the project, taken quick and active measures aimed at getting AnsaldoBreda to deliver the IC4-trains on time?
- Has the Minister for Transport and Energy supervised DSB's acquisition of IC4-trains in a satisfactory manner?
- Did the Minister for Transport and Energy inform Parliament about the acquisition of the IC4-trains in a timely and sufficient manner?

Investigation results

The overall purpose of acquiring IC4-trains is to improve long-distance and regional rail traffic. The improvements have not occurred, due to AnsaldoBreda's delay in delivery. During the period of 2001-2006 DSB encountered many project management problems with the supplier. During this period DSB made an attempt to resolve the problems as quickly as possible with the supplier, but the supplier of the trains is still

more than **3.5** years behind on the delivery.

As the owner, the Minister for Transport and Energy has on the whole led a satisfactory supervision of IC4 acquisition. Traffic improvements on the basis of IC4 acquisition are outlined in the Minister of Transport's contracts with DSB. The contracts do not require that DSB deals with the consequences of delivery delays. The National Audit Office of Denmark recommends that in future transport contracts be designed in such a way as to better promote DSB as a business and customer-orientated company.

This overall assessment is based on the following:

DSB had substantiated grounds for choosing AnsaldoBreda as supplier. DSB aquired information about AnsaldoBreda from other train buyers, including information about smaller scale delivery delays, which DSB estimated were not greater than those that generally prevailed in the industry.

- DSB made a general systematic and critical assessment of the train suppliers' offers, and the grounds for the choice of AnsaldoBreda was thoroughly worked out. Detailed evaluations and susequent negotiations involved a systematic and critical assessment and comparison of the 3 price offers and quality. Moreover DSB assessed the tenders' organisation, project management concept and the tender delivery schedules, which were included as a subcategory of a technical assesment.

- DSB aquired information from other buyers about AnsaldoBreda, including smaller scale delivery delays, which DSB estimated were not greater than those that generally prevailed in the industry.

Since the signing of the contract DSB has taken quick and targeted measures aimed at AnsaldoBreda, in an attempt to make them deliver on time. In 2004, DSB put into effect an additional number of measures targeted at the problems in AnsaldoBreda's project organisation and management.

- During the 2001-2002 period DSB drew AnsaldoBreda's attention to the fact that the latter's project organization and project management needed to be strenghtened and that deadlines needed to be met. At the end of 2002 DSB agreed an addition to the IC4 contract with AnsaldoBreda. Even though the addition does not contain demands that AnsaldoBreda's project organisation and project management needed to be strenghtend, DSB still mentioned the problems from 2003, when AnsaldoBreda failed to improve these areas.

- In early 2004 DSB put into effect a number of additional measures targeted at the problems with AnsaldoBreda's project organization and project management. In addition to the involvement of external consultants, DSB effected a legal and manergerial escalation.

Overall, the Minister for Transport and Energy's supervision of DSB's acquisition of IC4-trains has been satisfactory. Overall, the

supervision of the Ministry, as the owner, of the IC4 acquisition, has been satisfactory. The Minister takes the role of buying transport with DSB. The transport agreements have been designed in such a way that in case of delivery delays, it has to be estimated whether it is necessary to hire replacement material. DSB's estimation of AnsaldoBreda's delivery plan has generally been too optimistic, and this resulted in no replacement materials being hired. Furthermore, DSB lost an extra 329 million DKK as a result of the delays, while the Minister paid 186 million DKK for the hiring of trains. The National Audit Office recommends that the future transport contracts should be designed to better promote DSB as a business and customer-orientated company.

- DSB is an independant public company (SOV) that must operate on a commercial basis. The Minister for Transport and Energy has followed up the IC4 acquisition and the impact of the delivery delays on DSB's economy. Therefore the Ministry has lived up to its responsibilities as an owner.

- Being in charge of purchases and transport, the Minister for Transport and Energy must ensure that rail transport is properly implemented (this was passed by Parliament), while DSB is responsible for the practical implementation of the trains and acquisition of IC4-trains. The Ministry's transport purchases are negotiated through transport contracts, which define the transport volume and that DSB must provide for long-distance trains and regional trains. During the 2001-2014 period the Minister for Transport and Energy signed two contracts with DSB establishing transport improvements based on IC4 acquisition. None of the contracts require DSB to address the implications on traffic caused by the delay in the delivery of the IC4-trains, The question of hired replacement material must be submitted to Parliament.

- On 1 October 2004 Parliament decided not to hire replacement material that could replace the red regional trains. The decision was based on DSB's assessment that AnsaldoBreda's latest delivery plan was realistic. However DSB's assessment of AnsaldoBreda's delivery plan was far too optimistic, and was thus instrumental in the failure to hire replacement material.

- The wording of the two contracts meant that DSB received 329 million DKK for the delay in the 2003-2006 period, while the Minister for Transport and Energy covered the costs for DSB to the amount of 186 million DKK in the 2006-2010 period. Prior to this, as stipulated in the first contract, in the 2001-2004 period DSB received 104 million DKK from the Ministry to cover interest and depreciations on IC4-trains, although these were not carried out. Afterwards the Ministry acknowledged that this was inappropriate, and this is why the Ministry took the conditions of the contract for the period 2005-2014 into consideration. This resulted in DSB receiving a provisional allowance of 225 million DKK from AnsaldoBreda during the November 2005 - January 2006 period due to delivery delays. Finally, during the period of 2006-2010, the minister paid expenses for DSB to the amount of 186 million DKK, to extend the lease of modern trains for

the sake of avoiding deterioration of DSB regional transport because of IC4 delays.

During the 2000-2006 period the Minister for Transport and Energy provided the Parliament with regular updates on the acquisition of IC4-trains. His briefings of the Parliament have generally been timely and sufficient, but on three occasions the Minister could have provided better information.

- In January 2003 the Minister for Transport and Energy received the first information from DSB about the delivery delays of the IC4-trains. The Parliament was first informed about this in December 2003. The National Audit Office found that the briefing should have been given much sooner.

- Act 113 6/12 2000 of the Finance Committee states that DSB signed a contract with a train supplier for the supply of diesel trains of a new type (IC4). It appears from the records that DSB was of the opinion that the train sets could have been acquired on time and without any additional costs to DSB. The National Audit Office finds that the appropration should have included detailed assessments regarding the reliability of the delivery date.

- The Act 112 24/3 2004 of the Finance Committee states that the Minister included transport contracts for the period of 2005-2014 with DSB. It appears from both the record and subsequent transport contract for the period of 2005-2014, that the document implemented demands of DSB an increased operation of traffic. The National Audit Office finds that it would have been desirable for it to be specifically mentioned in the Act that the operation of traffic in the contract contains a postponement of the intended traffic expansion due to IC4 delays.